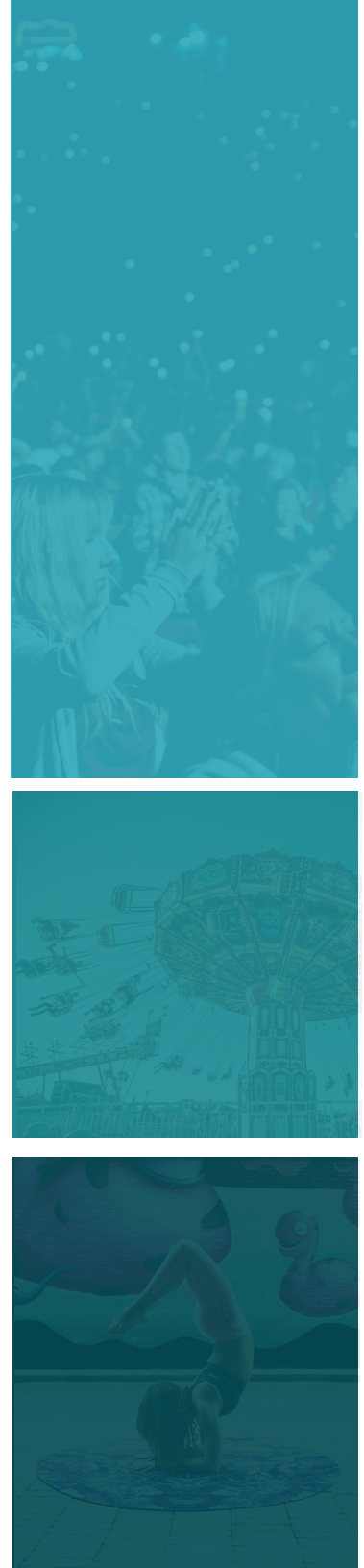


2020 | PRICING STRATEGY WHITE PAPER

Smart pricing in the leisure and event industry

A logical evolution of your pricing strategy



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SMART PRICING

WHAT IS IT ALL ABOUT?

INTRODUCTION TO SMART PRICING

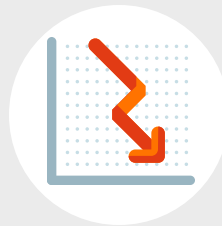
The purpose of smart pricing, or dynamic pricing, is to **optimise a seller's revenue** by continuously adapting its prices to meet demand or other criteria that are specific to its type of business activity (e.g. fill rate, time remaining until the end of sales, weather, time of day, week, year, etc.).

High demand

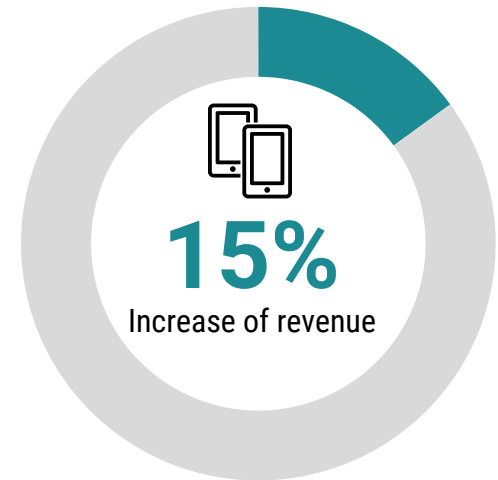


Prices adjust upwards to maximise revenue potential.

Low demand



Prices adjust downwards to stimulate sales.



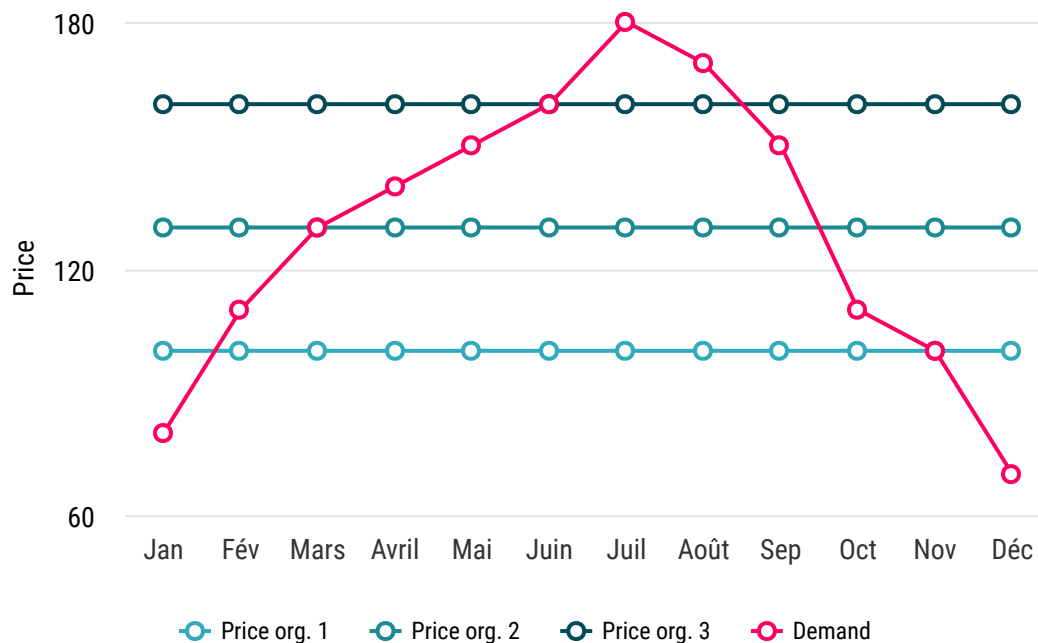
More and more industries increase their revenue thanks to smart pricing.

Dynamic pricing makes it possible to optimally capture increases in demand and mitigate decreases in demand by offering attractive prices during these periods.

THE ECONOMIC CONCEPT BEHIND SMART PRICING

On the graph below, you can see in pink the evolution of the general customer demand for a good or service. It varies from month to month and is highest during the summer.

In this example, there are three organisers, each offering a different fixed price for their activity (CHF 100, CHF 130, and CHF 160). By analysing the graph below, you can observe that:



Organiser #1

is able to make most sales because his price is always below the price that the majority of his customers are willing to pay.

He does not maximise his income because he could sell his activity at a higher price during the high season, without losing out on filling.

Organiser #2

makes only part of the sales because its price is sometimes above demand and sometimes below.

He does not maximise his income during periods of low and high demand because of his average fixed price.

Organiser #3

misses the majority of sales because its price is very high and is above demand most of the time.

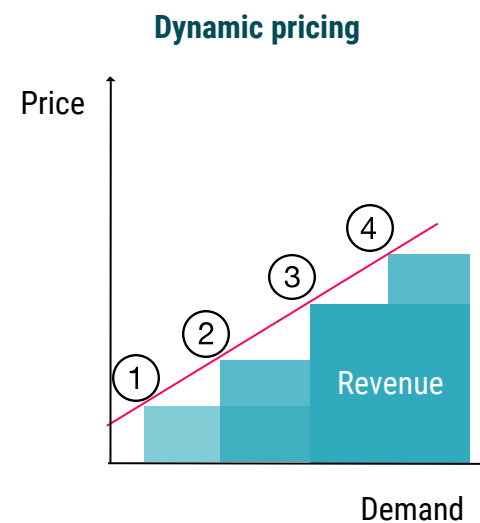
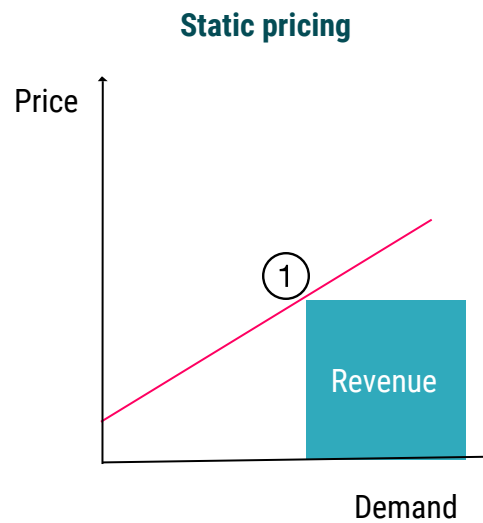
Nor does it maximise its income due to the large number of lost sales.

In the previous example, **none of the three organisers maximises its profit by keeping its price fixed**. Static pricing therefore results in a loss of revenue due to its inability to respond to changes in demand.

In conclusion, in order to optimise income, economic theory indicates that prices must evolve towards a **dynamic model** that optimally captures increases in demand by proportionally increasing prices and mitigates declines by offering more attractive prices.



With a variable price adapted to the demand, these three organisers could meet the total demand and obtain an optimal income, which corresponds to the air under the demand curve.





A BIT OF HISTORY...

HISTORY OF SMART PRICING



1980 - Airlines companies

Airline companies in the United States pioneered dynamic pricing in the 1980s after legislative changes that allowed them to control their prices. These airlines invested millions of dollars to develop computer programs that would automatically change prices according to known variables such as departure time, destination, season, etc.



Hospitality and tourism

Following the success of dynamic pricing for the sale of airline tickets, many other tourism sectors have adopted the same practice. Dynamic pricing is now the norm for hotels, cars rentals, etc. and consumers have widely accepted this practice, which has become relatively commonplace.



Commerce

More recently, the big names in E-commerce such as Amazon or WalMart have also adopted this type of pricing for their online shops, where the prices of items are constantly changing according to demand, resulting in a 20% increase in revenue.

This trend also continues today in physical shops, where some department stores no longer hesitate to change the prices of items on the shelves thanks to digital labels, allowing them to play better with prices in order to dispose of their perishable goods.

"Using this pricing model, [Walmart's] global sales grew by 30% in 2013 and the trend continued in 2014 as well. Amazon also saw a 27.2% increase in revenues and ended up as one of the top 10 retailers in the US for the first time." Jawad Khan, business.com



WHAT ABOUT THE EVENT AND LEISURE INDUSTRY?

CURRENT STATE

When **choosing a destination**, a person chooses between several flights whose prices are set by a dynamic pricing model. When choosing a hotel or accommodation, this person will again choose from a number of objects subject to dynamic prices.

But what about other leisure and event-related services?

From a theoretical point of view, it should be as interesting to practice dynamic pricing for a festival as it is for an airline. The characteristics of these two types of business are indeed relatively similar.



1 **Demand** fluctuates according to cycles with **high** and **low** periods.

2 **Quantities** available are generally **fixed**.

3 **Marginal cost** to sell an extra unit is close to **zero**.

While airlines and other transport services have understood the need to implement dynamic pricing for several years now, few leisure and event organisers have taken the step so far.

INCREMENTAL PRICING

While dynamic pricing is not yet widely used in the world of events and leisure, this industry has seen other very similar models such as **incremental or differentiated pricing**.



Perhaps you already apply dynamic pricing concepts without knowing it?

Weekend passes, seasonal passes or pre-sales have been around for a long time and are part of the organisers' strategy when demand is higher than usual. This allows them to:

- promote their activities,
- raise additional revenue.



The **limitations of these traditional models** lie in their lack of flexibility. Indeed, they are only able to respond poorly to changes in demand.

The latter is simply segmented into 3-4 periods with corresponding rates.



Conversely, **dynamic pricing models have no limit to flexibility**. They can respond in real time to variations in demand and other criteria that are specific to each business activity.

This reactivity is not only instantaneous but also proportional.



WHO IS USING DYNAMIC PRICING TODAY?

PIONEERS IN THE INDUSTRY

USA



The United States have a head start in the event industry where both the professional **basketball** (NBA) and **baseball** (MLB) leagues have been using dynamic pricing for the past few years.

Europe



At the European level, **ski resorts** are leading the way and have chosen to apply this method on a large scale with resounding success, where revenues from the sale of subscriptions and day passes have increased by 10% to 15%.

ALL OVER THE WORLD

Airlines



easyJet



Hotels



Booking.com

E-commerce



Walmart

Events



Leisure



SkiArena
ANDERMATT + SEDRUN



WHAT ARE THE BENEFITS OF SMART PRICING?

#1 INCREASE IN REVENUES

Dynamic pricing allows to better respond to variations in demand in order to **capture more value and maximise revenue**.

Periods of high demand

Peaks in high demand cannot be fully captured by an incremental pricing model, as rates are not instantly adjusted. A dynamic pricing strategy, on the contrary, allows you to **capture the entire additional income**.



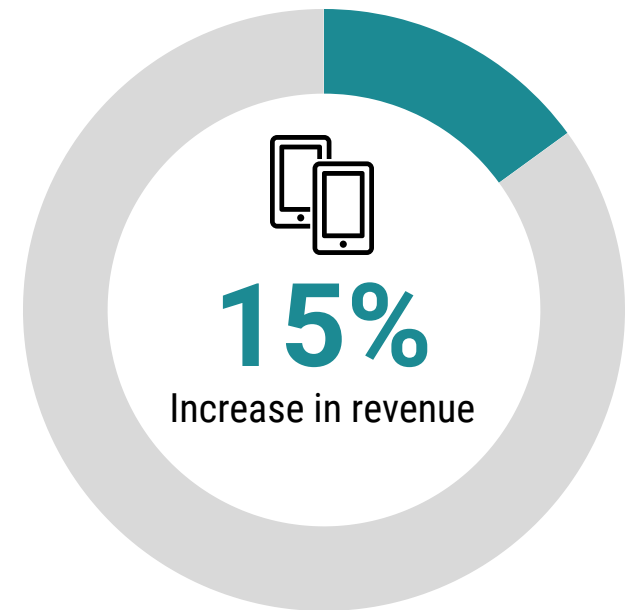
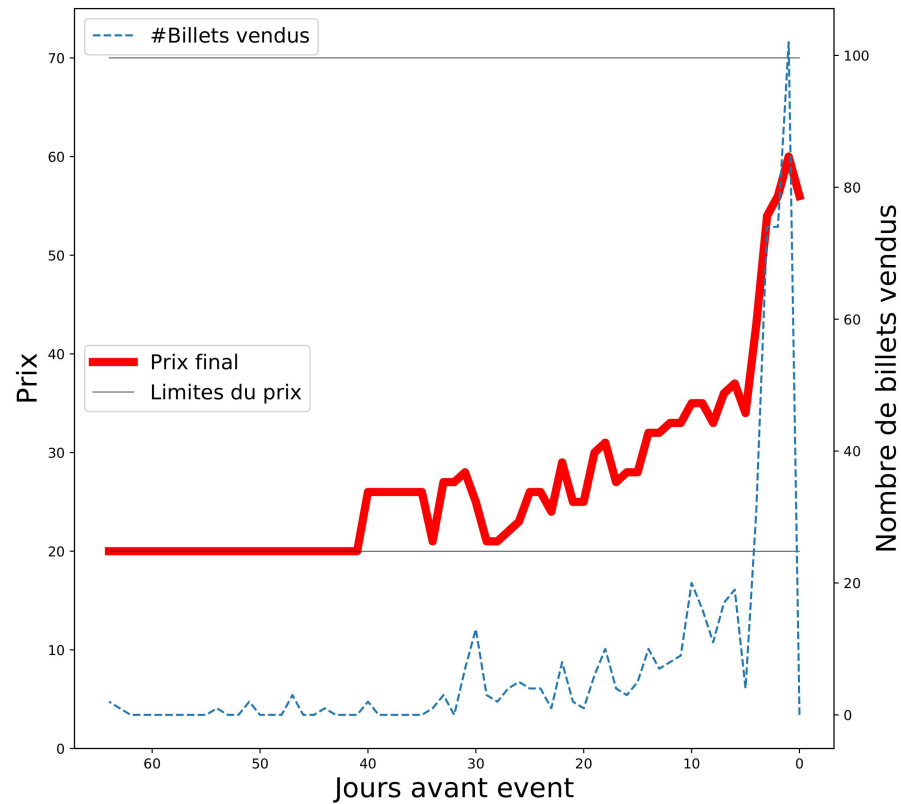
Dynamic models allow the price to be adjusted individually for each period and thus take into account the entire change in demand.

Periods of low demand

The prices offered in traditional models often prove to be too high and do not offer sufficient incentives to book during periods of low demand. Much of the potential income is therefore lost.



Dynamic pricing models offer very attractive prices during these periods and allow for higher occupancy rates by reacting continuously and instantaneously to changes in demand.



Organisers who use smart pricing generally see their revenues increase by 5 to 15% depending on the strategies implemented.

#2 ACCELERATION IN PRE-SALES AND INCREASE IN THE CONVERSION RATE



Smart pricing encourages end customers to book their activities and events earlier. Indeed, when the demand for an activity is still low, the prices proposed by the algorithm are particularly attractive for your customers.

The acceleration of bookings represents significant financial and managerial advantages for the organisers:

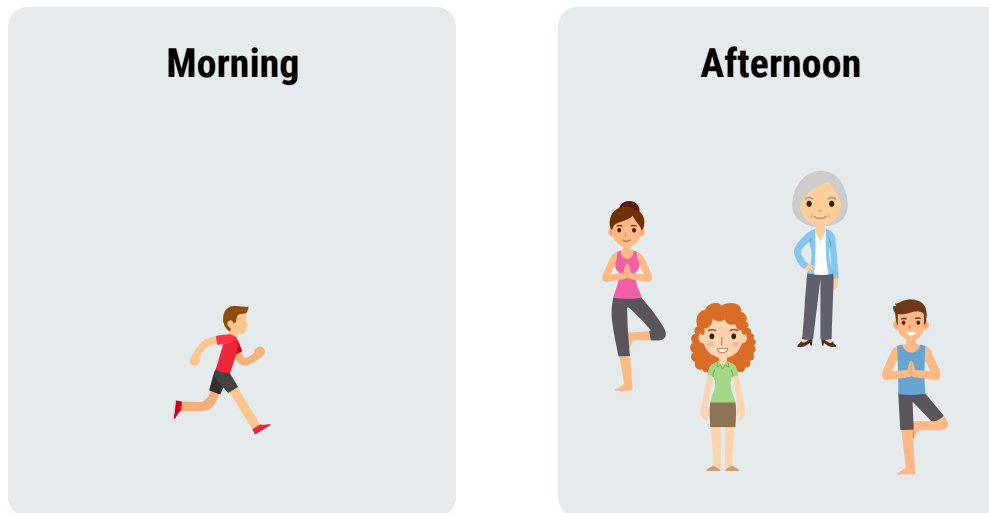
- In terms of **cash flow**, the early collection of the reservation allows the costs related to the organisation of the activity to be covered in advance and in a secure manner.
- In terms of **management**, anticipating the number of participants makes it possible to allocate human and material resources more optimally.

Organisers using smart pricing see their end customers **book on average 2x earlier** and their online conversion rate improves significantly.

The digitalisation of leisure offers encourages your customers to book at the last minute. Many organisers were selling early-bird tickets to counteract this trend. However, smart pricing is by far the best remedy from an organisational and revenue point of view.

#3 OPTIMISATION IN THE ATTENDANCE AND AVAILABILITIES

Take the case of an activity that takes place on a recurring basis, where mornings are less in demand and afternoons are generally full.

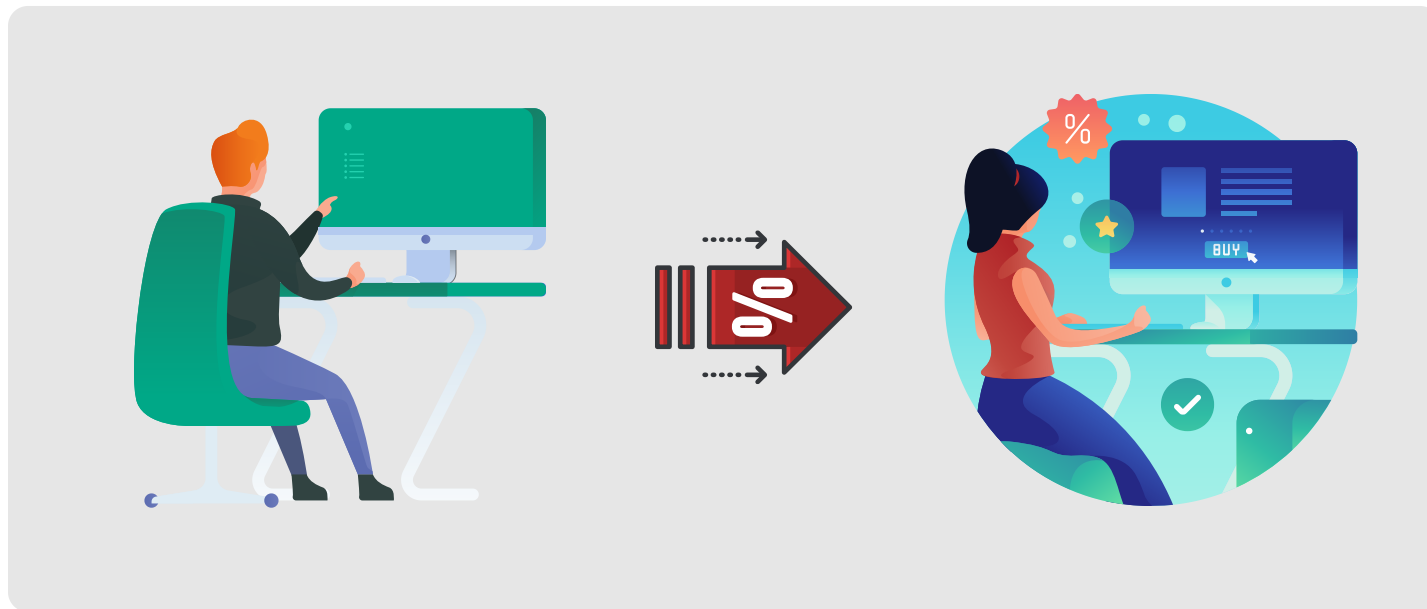


The organiser is likely to pass up or lose bookings in the afternoons when capacity is full, whereas some people who booked in the afternoon would have booked for the morning if prices had encouraged them to do so.

This problem can be solved automatically **by encouraging your end customers to book the periods for which you have the fewest reservations**, thus optimising your attendance and availability.

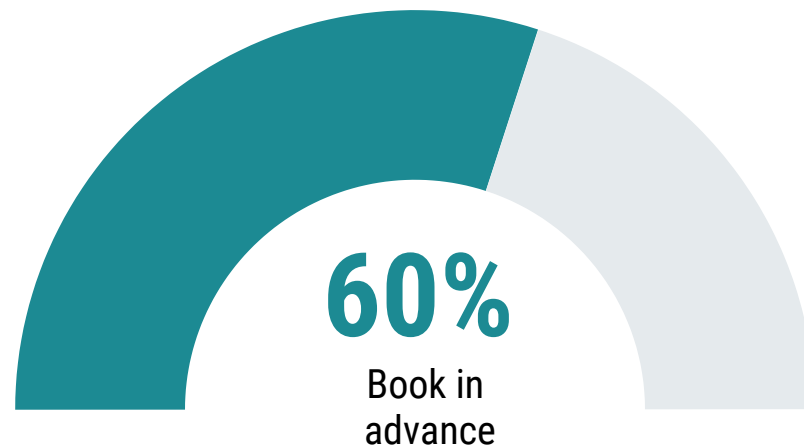
#4 PERMANENT CREATION OF CONTENT TO FEED YOUR COMMUNICATION

Thanks to frequent rate changes, you can easily obtain content to give your communication a dynamic look.
You can therefore **communicate more actively about your prices and offers** to keep your audience attentive.



#5 END-CUSTOMER SATISFACTION

Dynamic pricing models do not only benefit the organisers. They allow end customers to **benefit from specially advantageous rates** by booking in advance and in periods of low demand, making the activities accessible to a greater number of consumers.



In a survey of end-customers, 60% of those surveyed said that **varying prices according to demand would encourage them to book more in advance.**


SOME MISCONCEPTIONS ABOUT SMART PRICING

COMMUNICATION OF SMART PRICING

Recently, dynamic pricing has suffered from a lot of bad publicity. However, the origin of this bad press is always the same - the problem is not the pricing model itself, but the communication surrounding it.



Total and transparent communication is necessary from any organiser using dynamic prices. Otherwise, buyers don't feel safe. It is also essential that price changes remain under control through appropriate limits.

A person is shown in a starting crouch, leaning forward with their hands on the ground and feet apart, ready to start a race. The image is dark and serves as a background for the text.

HOW DOES SMART PRICING WORK WITH SMEETZ FOR BUSINESS?

SMART PRICING WITH SMEETZ

Our smart pricing solution allows you to take **full advantage of all the benefits of a dynamic pricing model** by selling directly from your website.

More advanced than a standard dynamic pricing model, our algorithm is based on advanced analysis of your data and machine learning.

The model offers you rates based on a very accurate sales forecast in order to optimise your capacities.

From a usage point of view, the implementation process is done automatically and the optimal price for your business is calculated in real time. This saves you precious time because you no longer have to change your prices manually.

We wanted to leave control of the model in the hands of the organisers.

They can themselves set the minimum and maximum price for each activity and also adjust the intensity of price changes and the effect of sales or weather forecasts on them.



NOT CONVINCED YET?

To sum up, our smart pricing solution allows you to innovate in the leisure and event industry and benefit from the following advantages:

- 1 Increase in revenue in the order of 10 to 15%.
- 2 Acceleration in pre-sales and increase in the conversion rate
- 3 Optimisation of attendance and availabilities
- 4 Permanent creation of content to feed your communication
- 5 End-customer satisfaction

We can help you set up an accurate and personalised smart pricing strategy. Our team is at your disposal for any advice you may require to ensure that your pricing strategy transformation is successful and beneficial to you.

Smeetz for Business

What we offer

We help event and leisure activity organisers to:

- engage with more customers,
- increase their ticket sales,
- and grow their business.

How we do it

With an all-in-one software that regroups:

- marketing,
- smart pricing,
- and ticketing.

Contact us to learn more

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